

ORIGINAL

Decision No. A7441

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on)
the Commission's own motion into the)
reasonableness of the fares, rules,)
regulations, charges, classifications,)
practices, operations and service, or)
any of them, of SAN DIEGO TRANSIT SYSTEM.)

Case No. 5332

Appearances

- Fred E. Lindley and Leon W. Scales, for respondent.
- Louis M. Karp, for City of San Diego, interested party.
- Fred Ellis, Mrs. Hollen M. Arnold, Dan D'Agostino
Tom Sherrard and Rev. Daniel O'Donoghue, for
various residents of Hillcrest and Linda Vista,
interested parties.
- A. M. Stevens, for Independent Progressive Party,
interested party.
- Le Roy E. Goodbody, for Roman Catholic Bishop of
San Diego, interested party.
- Boris H. Lakusta, for the staff of the Public Utilities
Commission of California.

O P I N I O N

This proceeding is an investigation on the Commission's own motion, for the purpose of determining whether the fares, rules, regulations, charges, classifications, practices, operations and service, or any of them, of San Diego Transit System are unjust, unreasonable, discriminatory, or preferential in any particular or otherwise unlawful and to determine the just, reasonable, sufficient, proper and lawful fares, rules, regulations, charges, classifications, practices, operations and service, or any of them, of San Diego Transit System and to fix the same by order.

Public hearings were held before Commissioner Potter and Examiner Bryant in San Diego on April 24 and 25, and May 22 and 23, 1952. Some of the parties asked leave to submit briefs at a later

date, and their requests were granted. Subsequently the parties filed a stipulation waiving their right to file briefs. The proceeding was thereupon taken under submission as of June 6, 1952.

The subject of earnings and fares will be considered first. Applicant's fare structure is based on a zone system, with seven zones radiating from the business center of San Diego. The present adult cash fare within any one or between any two contiguous zones is 13 cents cash or one token, the tokens being sold at a rate of two for 25 cents.¹ These fares were established on February 5, 1951, under authority of Decision No. 45279.² The operating results as forecast and adopted by the Commission in that decision, and the actual results for the year 1951 as subsequently reported by the company, are shown below:

	<u>Forecast, Dec. 45279</u>	<u>1951 Experience, Company Report</u>
Revenues	\$5,105,170	\$5,847,319
Expenses	<u>4,665,000</u>	<u>5,146,744</u>
Net Before Income Taxes	\$ 440,170	\$ 700,575
Income Taxes	190,440	379,067
Net After Income Taxes	<u>\$ 249,730</u>	<u>\$ 321,508</u>
Operating Ratio @	95.1%	94.5%
Rate Base	\$3,100,000	*
Rate of Return @	8.1%	*

* Not reported
 @ After provision for income taxes

¹ Five cents is added for each additional zone. There are also weekly passes and school fares.

² Decision No. 45279, dated January 16, 1951, in Application No. 31542, San Diego Transit System, to increase fares, 50 Cal. P.U.C. 410. The company had sought authority to establish a basic fare of 15 cents cash or one token, the tokens to be sold at the rate of two for 25 cents.

As shown in the tabulation, the 1951 revenues and expenses were substantially greater than had been anticipated in advance. The forecast was based upon the transportation of some 40,000,000 passengers, an estimate made by the Commission after analysis of forecasts submitted by the company, by the Commission's staff, and by the City of San Diego. In actual experience San Diego Transit System was called upon in the year 1951 to transport 44,758,977 passengers, and this despite a 23-day cessation of operations in March and April due to a strike. The conditions which induced relatively greater patronage of applicant's lines were foreseen by the Commission and referred to in Decision No. 45279, supra, but it is now clear that their effect was not anticipated in full. The unexpected riding trend accounts for the difference in revenues. The additional bus miles which the traffic necessitated accounts in large part for the difference in expenses.

This investigation was instituted for the principal reason that a review of monthly operating statements filed with the Commission by the San Diego Transit System appeared to show that the company's earnings under existing fares might be in excess of an amount required to meet operating expenses and provide a reasonable return on the used and useful property devoted to the service. For the month of August, 1951, the gross revenues of the company were 35 percent above those of August, 1950. This substantial increase was in marked contrast to the concurrent experience of other urban transportation operations. The Commission caused preliminary checks to be made and, shortly thereafter, instituted the present proceeding.

Transportation rates are, of course, established for the future. In this proceeding the Commission's staff and the San Diego

Transit System prepared and submitted separate estimates of operating results for the year ending with March 31, 1953. The staff engineer, from his analysis, reached the conclusion that the adult revenue passenger traffic and school traffic will remain at approximately the present levels for the coming year. Upon this basis he estimated that, under the existing fare structure, the company would derive total revenues during the rate year of \$6,400,000. The company witnesses, citing unfavorable factors such as removal from the San Diego area of certain naval personnel, forecast total revenues of \$6,347,000. The estimates of operating expenses and of rate base differed even more substantially. The two estimates may be compared in the following table:

Estimates for Year Ending March 31, 1953

	<u>Commission Engineer</u>	<u>Respondent</u>
Revenues	\$6,400,000	\$6,347,000
Operating Expenses *	4,634,466	4,846,091
Amortization	114,000	138,029
Interest on Unamortized Retirement	44,630	-
Depreciation	437,540	557,596
Taxes	<u>523,480</u>	<u>517,136</u>
Total Operating Expenses	\$5,754,116	\$6,058,852
Net Before Income Taxes	\$ 645,884	\$ 288,148
Income Taxes	317,978	229,795
Net After Income Taxes	\$ 327,906	\$ 58,353
Operating Ratio @	94.9%	99.1%
Rate Base	\$3,732,100	\$6,090,705
Rate of Return @	8.8%	.96%

* Excluding amortization, depreciation and taxes.

@ After provision for income taxes.

Both of the foregoing estimates include provision for a basic wage increase of 7 cents an hour to the bus operators. This amount has been offered by the company, as a counter proposal, and has been rejected by the operators as insufficient. The increase

of 7 cents an hour would amount to an estimated \$93,696 a year. The Commission engineer submitted an estimate of operating results exclusive of any wage adjustment. On this basis he developed results for the year as follows:

Revenues	\$6,400,000
Expenses	<u>5,660,420</u>
Net Before Income Taxes	\$ 739,580
Income Taxes	<u>369,400</u>
Net After Income Taxes	\$ 370,180
Operating Ratio @	94.2%
Rate Base	\$3,732,100
Rate of Return @	9.9%

@ After provision for income taxes.

There are many factors in the estimates which might be discussed. Taking the rate base for example, the figure suggested by the company, exceeding \$6,000,000, was based upon reproduction cost less depreciation, or current market value, of property and equipment. The basis is not acceptable.³ Moreover, the suggested rate base includes some \$317,000 as provision for working capital,⁴ and more than \$661,000 for undepreciated investment in street railway facilities retired from service, and for dismantling and paving costs.

³ For purposes of the 1950 rate proceeding decided January 16, 1951 (Decision No. 45279, *supra*) the company submitted a rate base of \$4,753,515, and the Commission, after consideration of all of the evidence, adopted a rate base of \$3,100,000.

⁴ Decision No. 45279, *supra*, stated as follows: "There is no question that the company requires cash and banking credit in the operation of its business. We conclude from the evidence, however, that the company can obtain sufficient cash balances for its normal requirements by making careful use of revenues as they become available. Under these circumstances there is no necessity to include an allowance for working cash in the rate base."

These items should be excluded from the rate base.⁵ Estimates of vehicle depreciation and many of the other items of expense might be discussed similarly and in more detail. However, under none of the estimates of record are the anticipated revenues so high as to warrant an order of this Commission compelling a fare adjustment. Upon consideration of all of the evidence of record it is concluded that the present fares of San Diego Transit System have not been shown to be unjust, unreasonable, discriminatory, preferential, or otherwise unlawful. Since no order fixing fares is contemplated, detailed discussion of the various elements comprising the several estimates would be in the nature of dicta and, as such, would serve no purpose.

A second principal subject within the scope of the proceeding is the matter of operations and service. The present fares were authorized in January, 1951, with the understanding that they would "enable the San Diego Transit System to carry out its declared policy of maintaining all equipment in good operating condition, and rendering to the public the best service consistent with sound economies of operation." (Decision No. 45279, supra.) In general it appears from the evidence herein that respondent has served the public well. Practically no service complaints have been received within the past year. Under the present investigation, engineers of the Commission's staff rode on all of respondent's lines one or more times to determine, among other things, the areas served, physical condition of the equipment, and driver attitude. Detailed studies were made of traffic and scheduling. According to the testimony, the maintenance and repair shops of this company are well equipped and adequately manned with skilled mechanics. The effectiveness of its preventive maintenance

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The Commission engineer included a similar item in an alternative estimate (not reproduced herein) and expressed the view that inclusion was proper "from an engineering and accounting standpoint." This matter has been considered by the Commission fully in prior proceedings involving the same parties, and has been discussed and explained in the antecedent decisions. Repetitious discussion would be pointless. (See Decisions Nos. 42203, 48 Cal. P.U.C. 309, and 45279, supra.)

program is indicated by the excellent appearance and mechanical condition of the equipment. There is evidence of accurate scheduling, good field supervision, and careful selection and training of operators. The company is providing service at load standards in close conformance with those recommended and employed by the Commission⁶ engineers.

The foregoing comments refer to the service in general. In one respect in particular the adequacy of the existing service was seriously questioned. The Linda Vista district of San Diego is located north of the San Diego River, about five air-miles north of the downtown area. It is served only by the company's Route "V", which reaches the downtown area via Linda Vista Road and Pacific Highway. Thus there is no direct service between the Linda Vista district and points north and east of the downtown area. For example, passengers wishing to travel between the Linda Vista district and the Hillcrest district are required to follow a bus route nearly 10 miles in length, although the direct distance between the points, via 6th Street Extension, is about 3.2 miles. Similar circuitry prevails in travel between Linda Vista and points east of the Hillcrest district.

Representatives of civic committees, churches and other organizations testified concerning the need for the service. There was received in evidence a copy of a resolution by the Council of the City of San Diego urging that full consideration be given to the

⁶ A few examples of overloading and overservicing were observed by the engineers. They offered suggestions for adjustments to effect improvement.

proposal. The resolution is set forth in the margin below.⁷ There was introduced also a petition from some 120 residents of the Hillcrest district urging establishment of service via the direct route. A representative of The Linda Vista Civic Committee testified that his community is greatly handicapped in its social and economic activities by the lack of a direct bus route. It appears from the evidence that the population of the Linda Vista district exceeds 20,000, and that additional thousands will be housed in the area within the next few months. This area, it also appears, is seriously lacking in recreational, educational and other facilities. Within the Hillcrest district, on the other hand, there are extensive medical, educational and recreational centers; and east of Hillcrest there are the State College and various other educational, recreational, shopping and religious centers.

A planning technician, employed by the planning department of the City of San Diego, introduced the results of a survey which he had made of the bus routing from and to the Linda Vista district. He testified that Linda Vista is relatively isolated geographically from the rest of San Diego, that the direct route would bring the area into closer community with the rest of San Diego and thereby tend to increase the unity of a city. He said that a "direct means of access to the city proper . . . would provide an inestimable advantage to

⁷ Resolution No. 106089, adopted April 1, 1952, as follows:

"That the City Council considers the proposed route for a bus line from Linda Vista, down Sixth Street Extension, to a terminal at the intersection of Fifth Avenue and University Avenue, to be a feasible and convenient route; urging the Public Utilities Commission to give full consideration to the request of Linda Vista residents and organizations for this service; and that if considered feasible and practical by the Commission, the City Council would like to see the new bus line installed."

the residents of Linda Vista, as well as those people wishing to go to Linda Vista, to extend their shopping, medical, educational, recreational and social opportunities." This witness was unable to supply quantitative evidence to indicate whether the direct route would support itself financially.

Respondent, through its superintendent of traffic, introduced as an exhibit a report of its investigation into the feasibility of the requested service. It was his conclusion that direct service between Linda Vista and Hillcrest would benefit some, but that its operation would result in a "heavy financial loss." He estimated that it would be patronized by only 250 passengers per day, and that on the basis of full costs the operation would result in a loss of about \$50 a day. The net out-of-pocket loss, on his assumptions, would be about \$13.25 a day. An engineer of the Commission's staff estimated that the direct operation, with a headway of 30 minutes, would cost approximately \$65 to \$70 per day, including depreciation, taxes and interest on the investment. This amount would accrue as revenue, at present fares, from the transportation of approximately 20 passengers on each round trip. The engineer was doubtful, however, whether the line could offer serious competition to private automobiles for the shoppers or students whom he believed would be most likely to use the service.

Whether or not the direct route would be fully compensatory within the near future is a matter which cannot be determined in advance. The financial results would depend principally upon the amount of patronage induced by the service. However, the financial prospects are not necessarily controlling. The record is clear that the existing service between Linda Vista district, on the one hand,

and points north and east of the downtown area of San Diego, on the other hand, is inadequate and insufficient, and that more direct service is necessary to meet an existing public need. Upon this record it is concluded, and the Commission hereby finds as a fact, that public convenience and necessity require the establishment of service as hereinafter provided. Respondent will be ordered to establish and maintain the required service. With the issuance of this order the investigation will be discontinued.

O R D E R

Public hearings having been held in the above-entitled proceeding, the evidence having been fully considered, and good cause appearing,

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be, and it hereby is, granted to San Diego Transit System, authorizing the establishment and operation of service as a passenger stage corporation, as that term is defined in Section 226 of the Public Utilities Code, for the transportation of passengers between the Linda Vista district and the intersection of 5th Avenue and University Avenue, via Ulric Street and 6th Street Extension, all within the city of San Diego, as an extension and enlargement of, and to be consolidated with, respondent's other operative rights. Respondent is authorized to turn its motor vehicles at termini and intermediate points, in either direction, at intersections of streets or by operating around a block contiguous to such intersections, all in accordance with local traffic rules.

IT IS HEREBY FURTHER ORDERED that San Diego Transit System shall, within ninety (90) days after the effective date hereof, and

on not less than five (5) days' notice to the Commission and to the public, establish and thereafter maintain service over the route herein authorized, and file in triplicate and concurrently make effective tariffs and time schedules satisfactory to the Commission. Initially the service shall be operated daily, except Sundays and holidays, with scheduled headways no greater than 30 minutes, between the hours from 6 a.m. to 7 p.m. approximately. Additional schedules may be operated as deemed necessary within respondent's discretion.

This investigation proceeding is hereby discontinued.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 30th day of

June, 1952.

R. J. [Signature]
President

Harold H. Kula

Frederick Totten

John E. [Signature]

Commissioners

Commissioner Justus E. Craemer, being necessarily absent, did not participate in the disposition of this proceeding.